

## Synopsis of Article

### Managing Reputation Risk

***Reputation and Its Risks***, Robert G. Eccles, Scott C. Newquist, and Roland Schatz, *Harvard Business Review*, February, 2007.

**Topical Area:** Reputation Risk; Expanding Enterprise Risk Management Scope; Reputational Risk Framework; Determinants of Reputational Risk; 5 Steps for Managing Reputational Risk;

**Main Theme:** Reputation is very important to most organizations, yet many companies do a poor job of managing risks to their reputation. Too often, companies focus their energy on addressing threats to their reputation that have already surfaced instead of proactively searching for potential reputation risks on the horizon.

#### Summary:

In today's economy, "70% to 85% of market value comes from hard-to-assess intangible assets," which makes organizations especially susceptible to anything that damages their reputation. Most companies do a poor job managing risks related to their reputation. The common approach to managing reputational risks is *reactive* rather than *proactive*. This article provides a framework for proactively managing reputational risks and explains a process for quantifying such risks and controlling them.

The absence of common standards regarding how to define and measure reputational risks has led to reputation risks being largely forgotten. For example, COSO's ERM framework addresses almost every other type of risk except reputational risk. Likewise, the Basel II framework deliberately excludes strategic reputational risks. Given such circumstances, even sophisticated corporations have trouble managing reputational risks. The article illustrates this point with an example involving a large, well-run pharmaceutical company that uses an ERM system for managing operational and financial risks, as well as disaster planning. Despite this high level of sophistication, the pharmaceutical company still manages reputational risks informally and at the local and product level. This type of situation is not uncommon. "Contingency plans for crisis management are as close as most large and midsize companies come to reputational-risk management."

#### Determinants of Reputational Risk

The article highlights three determinants of reputational risk:

- **Reputation-Reality Gap:** When an organization's reputation exceeds its actual character, reputational risks are increased.
- **Changing Beliefs & Expectations:** Shifting expectations and beliefs of stakeholders can widen (or narrow) the reputation gap.

- **Quality of Internal Coordination:** Poor coordination of decision-making between business units and functions increases reputational risks.

### **5 Steps to Managing Reputational Risks**

The article highlights five steps for managing reputational risks:

- **Assess Reputation:** Measure public perception contextually, objectively, and quantitatively.
- **Evaluate Reality:** Objectively examine the company's ability to meet stakeholders' performance expectations.
- **Close Gaps:** Facilitate effective investor relations and corporate communications programs.
- **Monitor Changing Beliefs & Expectations:** Survey experts and stakeholders and on a regular basis to reveal emerging trends and determine whether priorities are changing. Supplement surveys with focus groups and in-depth interviews to gain deeper understandings of the cause and potential effects.
- **Put One Person in Charge:** Have the CEO appoint one person to oversee reputational risks and periodically communicate findings to top management and the board.

Actively managing reputational risk does not necessarily result in enormous expenses. Most well-run companies already have several of the necessary elements for managing reputational risk in place. Additional costs typically are in the low to high six figures depending on the size and complexity of the company.

The primary challenge for organizations is recognizing that reputational risk is a distinct category of risk. Giving one person unambiguous responsibility for managing reputational risks will enable that person to identify any and all business activities that can affect or pose risks to the overall reputation of the organization and also enhance coordination throughout the company.

**Source:** "Reputation and Its Risks," by Robert G. Eccles, Scott C. Newquist, and Roland Schatz, *Harvard Business Review*, February 2007, pp. 104-114

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